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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
8- 18486

**FACING PAGE**

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING February 1, 2003 AND ENDING January 31, 2004  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: McLiney and Company

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

2800 McGee Trafficway

(No. and Street)

Kansas City

(City)

Missouri

(State)

64108

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

George J. McLiney, Jr.

816-221-4042

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Weaver & Martin, LLC

(Name - If individual, state last, first, middle name)

411 Valentine Ste. 300

(Address)

Kansas City

(City)

Missouri

(State)

64111

(Zip Code)

**CHECK ONE:**

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

**PROCESSED**

3 AUG 20 2004

THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

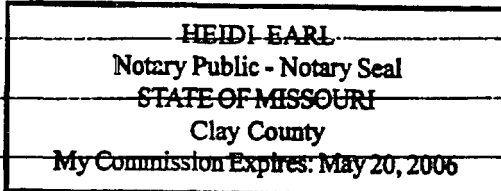
SEC 1410 (05-01)

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*[Handwritten signature]*

OATH OR AFFIRMATION

I, George J. McLinety Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of McLinety And Company, as of January 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Signature]  
Signature  
President  
Title

Heidi Earl

Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☒ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



## WEAVER & MARTIN

**Board of Directors  
McLiney and Company**

### **Independent Auditor's Report**

We have audited the accompanying balance sheet of McLiney and Company as of January 31, 2004 and the related statements of income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McLiney and Company as of January 31, 2004 and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Form X-17a-5 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Weaver & Martin*

March 10, 2004

Certified Public Accountants & Consultants  
411 Valentine, Suite 300  
Kansas City, Missouri 64111  
Phone: (816) 756-5525  
Fax: (816) 756-2252

**McLiney & Company**  
**Balance Sheet**  
**Janaury 31, 2004**

**Assets**

**Current assets:**

Cash	\$ 534,697
Cash, segregated account	5,009
Inventory	156,515
Interest receivable	285
Securities owned at market value	405,796
Refundable income tax	10,772
Prepaid expense	410

Total current assets	<u>1,113,484</u>
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Furniture and equipment	98,447
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Accumulated depreciation	<u>(68,090)</u>
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	<u>30,357</u>
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Note receivable	<u>117,700</u>
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	<u><u>\$ 1,261,541</u></u>
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**Liabilities & Shareholders' Equity**

**Current liabilities:**

Accounts payable	\$ 69,668
Accrued liabilities	<u>70,736</u>

Total current liabilities	<u>140,404</u>
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**Commitments:**

**Shareholders' equity:**

**Common stock-**

Class A, voting, \$1 par value, 200,000 shares authorized, 100,000 shares issued and outstanding	100,000
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Class B, voting, \$1 par value, 15,000 shares authorized, 5,090 issued and outstanding	5,090
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Additional paid-in capital	10,180
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Accumulated other comprehensive income	32,300
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Retained earnings	<u>1,104,445</u>
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	<u>1,252,015</u>
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Less treasury stock at cost (10,904 in 2003 and 10,732 in 2002 shares A and 3,916 in 2003 and 2002 shares B)	<u>(130,878)</u>
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Total shareholders' equity	<u>1,121,137</u>
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	<u><u>\$ 1,261,541</u></u>
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See notes to financial statements.

**McLiney and Company**  
**Notes to Financial Statements**  
**January 31, 2004**

**1. Summary of Significant Accounting Policies**

**Nature of Operations:**

The Company is a broker-dealer, principally in securities of Municipalities, with customers throughout the United States. Management does not believe significant credit risk exists in its sales or receivables.

**Uses of Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates, but management does not believe such differences will materially affect the Company's financial position, results of operations, or cash flows.

**Furniture and Equipment:**

Depreciation is calculated on straight-line and accelerated methods using estimated useful lives of five to ten years.

**Securities:**

Securities are valued at market and consisted principally of municipal government obligations and marketable securities. The transactions are recorded at the settlement date. As of January 31, 2004, approximately \$32,300 of unrealized gains are included in the value of securities owned.

**Long-lived Assets:**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. The Company determined that as of December 31, 2003, there had been no impairment in the carrying value of long-lived assets.

**Cash Equivalents:**

The Company's cash equivalents consist principally of cash and money market accounts with financial institutions. The investment policy limits the amount of credit exposure of any one financial institution.

**Financial Instruments:**

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term maturity of these instruments. Fair values are based on quoted market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of perceived risk.

**Recently Issued Accounting Standards:**

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the Interpretation). The Interpretation requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity. The Interpretation was originally immediately effective for variable interest entities created after January 31, 2003, and effective in the fourth quarter of the Company's fiscal 2003 for those created prior to February 1, 2003. However, in October 2003, the FASB deferred the effective date for those variable interest entities created prior to February 1, 2003, until the Company's first quarter of fiscal 2004. The Company has substantially completed the process of evaluating the Interpretation and believes its adoption will not have a material impact on its financial position or results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The standard is effective for contracts entered onto or modified after June 30, 2003, and for hedging relationships designed after June 30, 2003. The Company's adoption of SFAS No. 149 did not have a material impact on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes how an issuer classifies and measures certain freestanding financial instruments with characteristics of liabilities and equity and requires that such instruments be classified as liabilities. The standard is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective in the fourth quarter of the

Company's fiscal 2003. The Company's adoption of SFAS No. 150 did not have material impact on its financial position or results of operation.

**2. Note payable**

The Company has a \$5,000,000 line of credit with a bank secured by securities inventory and a personal guarantee of the majority shareholder. Interest is payable monthly at the prime rate. On January 31, 2004 the prime rate was 4.00% and fluctuated between 4.00% and 4.25% during the year then ended. As of January 31, 2004 no funds had been borrowed against the line.

**3. Net Capital Requirements and SIPC Assessment**

The Securities and Exchange Commission Rule 15c 3-1 requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. At January 31, 2004, the Company had a net capital ratio of .157 to 1.

The annual general assessment reconciliation form (SIPC-7) was waived by the Securities Investor Protection Corporation for the year ended January 31, 2004.

The Company is not required to maintain a special reserve bank account for the exclusive benefit of customers.

**4. Pension Plan**

The Company has a Savings Incentive Match Plan for Employees (SIMPLE) covering all employees. The Company will match employee contributions up to 3% of compensation. Amounts contributed in fiscal 2004 were approximately \$47,000.

**5. Income Taxes**

The difference between the statutory tax rate and the effective tax rate results from the surtax exemption, municipal interest income and depreciation.

**6. Commitments**

At January 31, 2004, the Company had entered into when-issued purchase commitments at market for municipal obligations of \$633,000 and corresponding when-issued sale commitments of \$308,000.

The Company rents office space under a five-year lease. Rent payments for the year ended January 31, 2004 totaled approximately \$16,560. Minimum lease payments are \$16,560 for fiscal 2005, \$17,100 for fiscal 2006, \$17,280 for fiscal year 2007, \$17,820 for fiscal year 2008, and \$4,500 for fiscal year 2009.

**7. Related Party Transactions**

During fiscal 2004, there were demand notes receivable from shareholders with an interest rate of 5%. There also was an investment in a Limited Liability Company whose members included shareholders.

Included in notes receivable at January 31, 2004 was a \$117,700 real estate mortgage with an entity composed of shareholders. The note is collateralized by property with interest only payments of 7% due annually. Principal is due December 31, 2006.